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SUBJECT: GUIDANCE: DFI-IAMB CONSULTATIONS, AUGUST 27

¶1. (U) USUN should draw from the following building blocks (para 2) during August 27 UNSC consultations on the Development Fund for Iraq (DFI) and the International Advisory Management Board (IAMB).

¶2. (U) Begin building blocks:

-- The United States welcomes the first report of the Secretary-General pursuant to paragraph 3 of resolution 1859 (2008).

-- UN Security Council Resolution 1859 (2008) carried forward for one year the arrangements for the Development Fund for Iraq (DFI), including the obligation to deposit proceeds from export sales of oil and natural gas into the DFI, the oversight function of the IAMB, and the obligation (originally contained in resolution 1483 (2003)) on states to extend certain immunities to petroleum, petroleum products, and natural gas originating in Iraq and revenues from such export sales as well as to the DFI. In anticipation of the expiration of the arrangements at the end of 2009, the United States is working with the Government of Iraq to continue the arrangements, in particular, the immunities.

-- We note today our understanding that the bulk of commercial claims inherited from the former regime have been formally reduced and resolved, and that Iraq has made great progress in settling sovereign debt. The United States is exploring with the Government of Iraq a state-to-state resolution of claims of U.S. victims of Saddam Hussein era terrorism.

-- Resolution 1859 also extended the mandate of the IAMB, whose audits of DFI accounts over the last four years have consistently noted a serious lack of internal controls in accounting for and managing the DFI, as well as the lack of an adequate system for metering Iraqi oil production.

-- The IAMB has now met 25 times since 2003, including twice in 2009. During the last meeting of the IAMB in Vienna on July 22nd and 23rd, the results of the 2008 DFI audit were reviewed. This report again highlighted key issues of concern regarding weaknesses in controls over oil extraction and use of the resources. The fact that poor internal controls remain a significant concern and that the metering of Iraqi oil production remains inadequate, frustrates all serious efforts to accurately determine how much of Iraq's oil revenue is being lost through theft, smuggling, or leakage. We are concerned that this is one of the IAMB's earliest recommendations from 2004 and it remains incomplete. Accordingly, we note the need to implement comprehensive, system-wide metering.

-- The successor organization to the IAMB - the Committee of Financial Experts (COFE) - was established in 2007 to assume the roles and responsibilities of the IAMB upon completion of the IAMB mandate, as envisaged under UNSCR 1859. While the United States recognizes the confidence the IAMB has in the

competence and capabilities of COFE, we are concerned whether COFE has the skill set and independence that it needs to have. Although COFE's initial mandate provides for its independence, its current composition includes officials with government ministry ties and its top official is the President of the Board of Supreme Audit.

-- The United States welcomes COFE's close work with the IAMB, as well as its increased role in the follow-up and implementation of recommendations contained in the IAMB commissioned independent audit reports. As preparations begin to review the DFI and IAMB mandates at the end of this year, it will be important to ensure COFE is prepared and capable to succeed the IAMB as an effective, transparent oversight mechanism.

-- The United States calls on the Government of Iraq to implement the recommendations of the IAMB, and to stand ready to support COFE's capacity to take over the tasks currently entrusted to the IAMB.

-- It will also be important to ensure that a mechanism to continue payments from Iraq's oil and gas export proceeds to the United Nations Compensation Fund be considered, if Iraq and Kuwait have not reached an agreed settlement of Iraq's remaining UNCC payment obligations at that time. The United States call on Iraq and other interested parties to continue the discussion already begun under United Nations Compensation Commission auspices on solutions to the issue of outstanding compensation payments.

-- We welcome the next meeting of the IAMB, together with COFE, which is expected in December 2009.

End building blocks.
CLINTON